HOUSING MARKET OUTLOOK

St. John's

Canada Mortgage and Housing Corporation

www.cmhc.ca

VOLUME 1, EDITION 1
SPRING 2005

Housing Demand Drifts Lower

With most of the pent-up demand created in the 1990's now satisfied and the pace of income growth slowing, housing demand within the St. John's region is forecast to drift gradually lower in coming years. The outlook for a steady rise in interest rates commencing in late 2005, combined with only modest employment growth, will also moderate homebuying activity this year and next. While conditions will weaken, activity will remain buoyant in historical terms.

Resale Market Begins to Cool

After posting record numbers in each of the previous six years, the local resale market is expected to gradually cool. Our forecast calls for MLS® residential sales through the Eastern Newfoundland Real Estate Board to decline just over six per cent to 3,000 units in 2005 and edge down further to 2,900 units the following year. With new home sales forming a significant portion of MLS® activity, an expected decline in housing starts will also lead to fewer MLS® residential sales over the forecast period.

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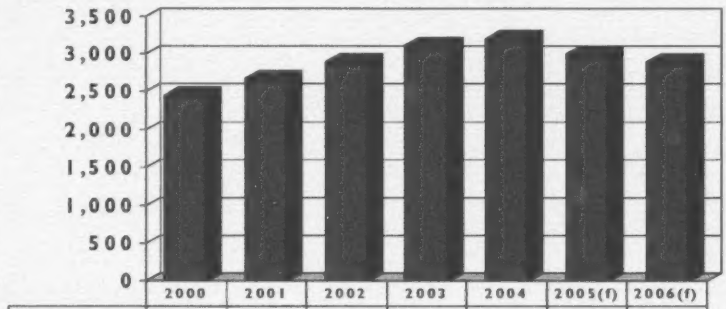
MLS®— Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

MLS® Sales - St. John's and Area



	2000	2001	2002	2003	2004	2005(f)	2006(f)
MLS® Sales	2,453	2,675	2,893	3,119	3,203	3,000	2,900

Source: Eastern Newfoundland Real Estate Board, CMHC forecast

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Local housing demand will also be negatively affected by reduced affordability. The combination of rising prices, higher interest rates and weaker income growth will likely limit the ability of some households to purchase homes and force them to either delay or abandon the desire to own a home. These conditions will moderate first-time buyer activity with the bulk of demand remaining concentrated in the move-up market.

Balanced Market Conditions Ahead

Despite strong sales activity during the early part of 2005, the market continued to move closer to balanced conditions, largely as a result of a steady rise in active listings. The supply of active residential listings surged 27.1 per cent during the first quarter, maintaining a trend that began in the second half of 2003. With more choice in the marketplace, homebuyers are able to shop around. As a result, listing times are getting longer and growth in house prices is also showing signs of easing. As homebuying demand begins to slow and listings continue to increase, the local resale market should move to a balanced position by this summer.

Price Gains Continue at Reduced Pace

Bungalow

	Jan 2003	Jan 2004	Jan 2005	Jan 2006(f)
St. John's East	$153,000	$159,000	$166,500	$170,000
St. John's West	$146,000	$151,000	$158,000	$161,000
Mount Pearl	$143,000	$148,000	$153,000	$156,000

Two Storey

	Jan 2003	Jan 2004	Jan 2005	Jan 2006(f)
St. John's East	$200,000	$210,000	$230,000	$239,000
St. John's West	$195,000	$206,000	$234,000	$243,000
Mount Pearl	$196,000	$205,000	$230,000	$239,000

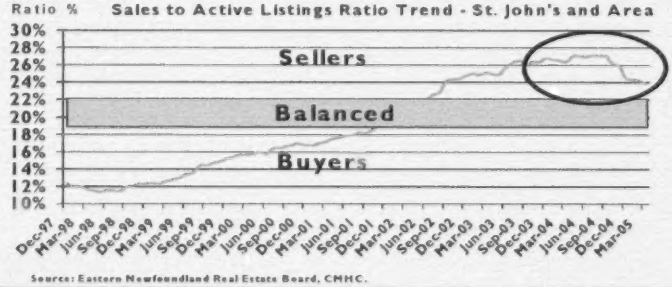
Source: CMHC Benchmark House Price Survey.

This will follow approximately three years in which sellers' market conditions have prevailed.

Price Gains Continue, But at Reduced Pace

As the market adjusts to balanced conditions, choice will increase and selling times will lengthen. Accordingly, expect to see slower rates of price growth over the next two years. With move-up buyers remaining active, two-storey homes will continue to experience the strongest growth—between three and five per cent annually. Prices for bungalow-style homes are forecast to increase between two to three per cent in both 2005 and 2006. These rates of growth will be approximately half the level achieved during 2004.

Balanced Market Continues Ahead



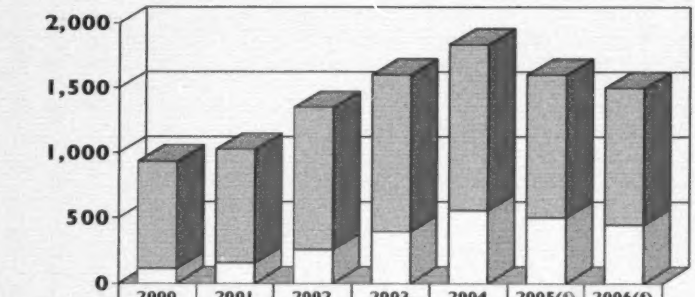
Source: Eastern Newfoundland Real Estate Board, CMHC.

New Homes Market

Fewer Housing Starts Expected

Following six years of growth, highlighted by a 30-year high in 2004, housing starts are forecast to decline in each of the next two years. A general slowdown in demand, coupled with a sharp rise in construction costs and competition from a growing supply of more affordably priced, existing homes, will be largely responsible for the decline. Overall, housing starts will fall to 1,600 units this year and slip lower to an estimated 1,500 units in 2006. Despite the outlook, residential construction activity will also remain relatively strong in historical terms. While fewer starts of both single-detached and multiple units will occur, the singles market will be hardest hit. That is largely because singles will also be hampered by the ongoing shift towards more affordably priced, medium-density options, including semi-detached and duplex units. Single starts are forecast at 1,100 units in 2005 before falling further to 1,050 units in 2006.

Housing Starts- St. John's CMA



	2000	2001	2002	2003	2004	2005(f)	2006(f)
Singles	825	875	1,093	1213	1,275	1,100	1,050
Multiples	110	154	257	391	559	500	450

Source: CMHC. Forecast 2005, 2006.

Multiple Starts Also Lower, But Well Ahead of 5-year Average

With the multiples market heavily concentrated in ownership housing for over a decade, the outlook for a general reduction in homebuying demand will also contribute to slightly fewer multiple starts. Expect semi-detached starts to cool slightly from last year's four-fold increase. Steadily rising costs, in tandem with higher interest rates, will keep basement apartment starts around current levels as a portion of buyers remain in need of the additional income in order to afford the home. Condo starts are expected to remain flat this year, but rise modestly in 2006 as demand picks up and current supplies are absorbed. On balance, multiple unit starts will reach 500 units in 2005 before edging down to 450 units in 2006. This level of activity will remain well ahead of the average level achieved over the past five years.

Rental Market

Vacancy Rate Edges Higher

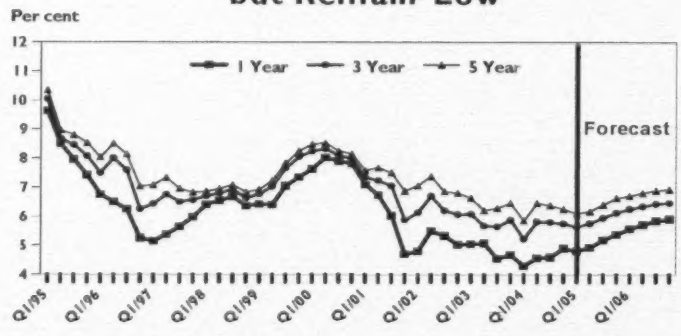
The outlook for only modest employment growth, coupled with another year of brisk home sales, will push the vacancy rate higher over the next 12 to 24 months. Competition from an ongoing supply of basement apartments will also affect the performance of larger rental projects.

Accordingly, the vacancy rate for private structures containing three or more units is forecast to edge higher, to between 3.5 and 4 per cent this year and next. Despite the outlook for more vacancies, monthly rents are expected to increase in the three to five per cent range in each of the next two years as landlords attempt to recover the large investment associated with significant renovation to the rental stock in recent years.

Mortgage Rates to Rise, but Remain Low

Posted mortgage rates are forecast to rise in 2005–06 but they will remain low in historical terms. Increases will be modest, rising by less than 50 basis points annually this year and next. One-, three- and five-year mortgage rates are forecast to be in the 4.50–5.50, 5.50–6.50, and 5.75–6.75 per cent ranges, respectively, in 2005. However, rising posted rates will not necessarily lead to higher mortgage rates for borrowers as the practice of negotiating discounts ranging between 0.50 to 1.50 per cent from posted rates is likely to persist.

Mortgage Rates to Rise but Remain Low



Source: CMHC. 2005/06 CMHC Forecast

St. John's Metropolitan Area
Spring 2005

RESALE MARKET	2004	2005(f)	% Chg	2006(f)	% Chg
MLS Average Monthly Active Listings	1,064	1,200	12.8%	1,250	4.2%
MLS Sales	3,203	3,000	-6.3%	2,900	-3.3%
Benchmark House Price (3 Bed. Bungalow, January)					
East	$159,000	$166,500	4.7%	$170,000	2.1%
West	$151,000	$158,000	4.6%	$161,000	1.9%
Mount Pearl	$148,000	$153,000	3.4%	$156,000	2.0%
NEW HOMES MARKET					
Absorption Rates (Monthly Average)					
Single and Semi-detached	111	100	-9.9%	90	-10.0%
Starts	1,834	1,600	-12.8%	1,500	-6.3%
Single	1,275	1,100	-13.7%	1,050	-4.5%
Multiple	559	500	-10.6%	450	-10.0%
Ownership	391	450	15.1%	400	-11.1%
Rental	0	50	N/A	50	0.0%
Average Absorbed New House Price	$179,165	$188,000	4.9%	$190,000	1.1%
RENTAL MARKET					
Vacancy Rate (October)	3.1%	3.5%		4.0%	
Rental Rate (annual % chg) 2 bdr	1.8%	5.0%		2.0%	
ECONOMIC OVERVIEW					
Mortgage rate (3 yr. term)	5.65%	5.87%		6.37%	
Mortgage rate (5 yr. term)	6.23%	6.32%		6.83%	
Employment growth	-600	1,000		750	
Net Migration	1,200	1,000		800	

Housing Market Outlook is published 2 times a year, in the spring and fall, for the St. John's market. Annual subscriptions to the **Housing Market Outlook** for St. John's are $40, plus applicable taxes. This publication is also available in French. For more information, or to subscribe, contact Michele Clark at the Atlantic Business Centre at (902) 426-4708. *Order no. 7359EE*

Ce document est disponible en français. Veuillez communiquer avec Michele Clark au Centre d'affaires de l'Atlantique au (902) 426-4708.

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